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19-9-61



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GlobalAutomakers



October 24, 2019

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: SUPPORT IF AMENDED – Proposed Fiscal Year 2017-18 Funding Plan - CVRP

Members of the Board:

The Alliance of Automobile Manufacturers¹ and the Association of Global Automakers, Inc.² appreciate the opportunity to comment on the fiscal year (FY) 2019-20 Clean Vehicle Rebate Project (CVRP) funding plan. We support and share California's goal of expanding the market share for zero emission vehicle (ZEV) technology. The CVRP is critical to meeting this goal, and if the \$60,000 base MSRP cap is eliminated, we support the proposed funding plan.

Background

Automakers now offer more than 40 different ZEV models and are introducing significantly more models over the next couple of years. Our members are also starting to introduce second generation ZEVs with longer ranges and better performance. These vehicles are safe, reliable, efficient, fun to drive, and offered at compelling prices.

California has the highest combined sales of zero emission vehicles, including fuel cell electric vehicles (FCEVs), battery electric vehicles (BEVs), and plug-in hybrid electric vehicles (PHEVs) in the United States. This is the result of a combination of compelling products, financial incentives at the state and local level, carpool lane access, free or reduced parking, significant charging infrastructure, dedicated efforts to expand hydrogen refueling infrastructure, high population centers, an ideal climate, significant education and outreach, and highly engaged stakeholders, like government agencies, utilities, and *Veloz*, to name a few. California's commitment to ZEV technology at every level is unmatched, and we sincerely appreciate the leadership of CARB in developing this comprehensive program to support ZEV technology.

Nevertheless, the market has a long way to go, especially considering California's long-term climate and electrification goals and the expected end of federal tax credits that provide up to

¹ Alliance members include BMW, Chrysler, Ford, General Motors, Jaguar Land Rover, Mazda, Mercedes-Benz, Mitsubishi, Porsche, Toyota, Volkswagen, and Volvo. Please visit www.autoalliance.org for further information.

² Global Automakers' members include Aston Martin, Ferrari, Honda, Hyundai, Isuzu, Kia, Maserati, McLaren, Nissan, Subaru, Suzuki, and Toyota. Please visit www.globalautomakers.org for further information.

\$7,500 for electric vehicles. In 2018, ZEVs made up less than 8 percent of new vehicle sales in California, and surveys indicate consumer awareness is still low. Moreover, we (collectively, automakers, ARB, NGOs, utilities, etc.) face an enormous challenge of developing a sustainable market for ZEVs that does not rely on large incentives by either the automakers or government. For comparison, conventional hybrid electric vehicles have been on the market for 17 years, yet their market share peaked at about 7 percent in California in 2013 and has steadily declined thereafter.

California's market share of new ZEV sales is twice that of any other state in the country, and almost half of all ZEVs sold in the United States since 2011 were sold in California.³ One of the biggest components of California's success is the commitment to CVRP. According to the Center for Sustainable Energy, over 74% of recipients stated the CVRP is either "very important" or "extremely important" to their decision to purchase a ZEV.⁴

2019/20 FY Proposed Changes

We have worked with CARB staff on the proposed FY2019-20 Funding plan. The draft funding plan totals \$238 million for CVRP funding, including \$25 million equity funding for low income CVRP applicants. Due to the success of the CVRP program and the backlog of funding for waitlisted purchasers this year, this funding is unlikely to provide the rebates for all ZEV purchasers during this fiscal year.

The staff recommends several changes to the CVRP program this year to extend the availability of funds for a longer period, all of which we support with the exception of the MSRP cap. Specifically, we support the following changes to the CVRP program:

1. A \$500 per vehicle reduction in the standard CVRP rebate amount to \$4,500 for FCEVs, \$2,000 for BEVs and BEVx, and \$1,000 for PHEVs. Note the low income CVRP rebate will remain unchanged.
2. Increase the minimum all electric range for PHEVs from 20 miles to 25 miles.⁵
3. Limiting customers to one CVRP rebate going forward but allowing a second rebate for customers moving to a FCEV.
4. Limiting customers to a 3-month application window after vehicle purchase.
5. Unlike in past years, a waiting list will NOT be established once the funding is exhausted.

³ Alliance of Automobile Manufacturers (2019) Advanced Technology Vehicle Sales Dashboard. Data compiled by the Alliance of Automobile Manufacturers using information provided by IHS Markit (2011-2018) and Hedges & Co. (2019). Data last updated 8/20/2019. Retrieved 10/4/2019 from <https://autoalliance.org/energy-environment/advanced-technology-vehicle-sales-dashboard/>.

⁴ Center for Sustainable Energy (2016). California Air Resources Board Clean Vehicle Rebate Project, EV Consumer Survey Dashboard. Retrieved 5-Dec-2017 from <http://cleanvehiclerebate.org/survey-dashboard/ev>.

⁵ As measured by the UDDS test cycle.

These changes are expected to reduce the effectiveness of the program and result in fewer ZEV sales. Nonetheless, we understand and appreciate the staff's intent to balance a restricted CVRP budget while trying to extend the CVRP as long as possible.

MSRP Cap: While we support the proposed changes above, we do not support the staff's proposal to prohibit CVRP rebates for vehicles with a base MSRP of more than \$60,000. The CVRP program already contains an income cap that prevents individual tax filers making more than \$150,000 from receiving a rebate (with higher caps for head of household and married filing jointly). Market data shows that most customers purchasing vehicles in the \$60,000 to \$100,000 range will not qualify for the CVRP because of the income cap. Additionally, a large percentage of ZEVs are leased, as that is an increasingly preferred method for consumers to access new technology, and many of those vehicles would become ensnared in an MSRP cap while the true cost to the purchaser through the term of the contract (e.g., total of all payments) would roughly be equivalent to 50% of the MSRP. And in most cases the total cost to the consumer would be well under the proposed MSRP cap, but he or she would now be excluded from participating in CVRP because of this arbitrary cap.

In addition, implementing new technologies in vehicles *always* bears higher cost. To offset initial high development costs, manufacturers usually implement these new technologies in higher priced vehicle segments first. Gradually, as costs can be reduced, the same technologies find their way into the lower priced models of the manufacturer. Examples from the past include electric power windows and door locks, cruise control, and Bluetooth integration. Today's ZEV vehicles with inherently higher MSRP act as carriers for transferring and making available the ZEV technology from a niche, higher-priced market segment into the mass market.

Finally, when the state specifically excludes a vehicle, it suggests these ZEVs are somehow 'bad,' and the state does not want to encourage their sale. With more and more ZEVs planned to be released by automakers over the next several years, many more vehicles are sure to be targeted by the MSRP cap. To meet the state's ZEV goals, *all* ZEVs, regardless of MSRP, must succeed. Discouraging the purchase of ZEVs based on MSRP is not consistent with these goals.

Automakers oppose an MSRP cap. It suggests some vehicles are better than others. In fact, the environmental benefit associated with ZEVs is independent of the MSRP.

Clean Fuel Reward (CFR) Program

The staff report could have been read to suggest the CFR program might somehow eliminate the need for the CVRP program. We do not believe this was staff's intent. In fact, the CFR program complements the CVRP program, but in no way does it replace it – this year or any in the future.

The CFR, unlike the CVRP or any local incentives, will be the state's only point of purchase rebate. The CFR, which is funded by LCFS credits generated by residential EV charging, will

provide customers across the state with a rebate at the dealership. The CFR should be implemented Q1 or Q2 of 2020, but the CFR amount is currently unknown.

Long-Term Plan for CVRP Incentives

We will continue to work with CARB, the legislature, and administration to obtain additional funding that would maximize the CVRP rebates and expand the ZEV market. We agree with CARB staff that the ZEV market is in its very early stages, and it is difficult to predict with any accuracy the market for these vehicles. This assessment is particularly difficult since a sales mandate is in place for the vehicles, rather than free-market sales. We plan to continue our work with CARB staff in the coming years to provide up-to-date ZEV market information to inform and refine future decisions.

In closing, we sincerely appreciate the staff's hard work over the last few years, and the Board's continued support and commitment to the CVRP. We look forward to working with you to ensure its continued success.

Sincerely,



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